

**CITY OF STRATFORD, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

## Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-8
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 9-10
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 11-12
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 13
Notes to Financial Statements	14-23
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	24-25
Notes to Required Supplementary Information – Budgetary Reporting	26
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1 27-28
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2 29
Schedule of Indebtedness	3 30-31
Bond and Note Maturities	4 32-33
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5 34
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	35-36
Schedule of Findings	37-40

**City of Stratford, Iowa**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Mike Nepereny	Mayor	Jan 2006
Rick Woodard	Mayor Pro Tem	Jan 2004
Chris Bauer	Council Member	Jan 2004
Mark Doud	Council Member	Jan 2006
Karen Harrill	Council Member	Jan 2006
Robert Hudson	Council Member	Jan 2006
Corinne Anderson	Manager/Treasurer	Jan 2004
Jason Hylund	Attorney	Jan 2004
<b>(After January 2004)</b>		
Mike Nepereny	Mayor	Jan 2006
Rick Woodard	Mayor Pro Tem	Jan 2008
Mark Doud	Council Member	Jan 2006
Karen Harill	Council Member	Jan 2006
Robert Hudson	Council Member	Jan 2006
Jerry Janney	Council Member	Jan 2008
Corinne Anderson	Manager/Treasurer	Jan 2005
F.D. Chip Baltimore II	Attorney	Jan 2005

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stratford, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Stratford's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stratford as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 10, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2004 on our consideration of the City of Stratford’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Stratford’s basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which is presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CORNWELL & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

November 24, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stratford provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

\* Revenues of the City's governmental activities increased 49%, or approximately \$404,582 from fiscal 2003 to fiscal 2004. Property tax increased approximately \$7,950 and bond proceeds increased \$391,688

\* Disbursements increased 30%, or approximately \$145,008, in fiscal 2004 from fiscal 2003. Public safety and debt service disbursements increased approximately \$29,194 and \$25,925 respectively.

\* The City's total cash basis net assets increased 30%, or approximately \$435,644, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$335,801 and the assets of the business type activities increased by approximately \$99,843.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increase or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric, water, sewer, and garbage. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two types of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital

Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the electric, water, sewer and garbage funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position.

### Cash Basis Net Assets of Governmental Activities

Year ended June 30, 2004

#### Receipts and transfers:

##### Program Receipts:

Charges for service	\$ 17,282
Operating grants, contributions and restricted interest	102,429
Capital grants, contributions and restricted interest	12,158

##### General receipts:

Property tax	\$ 240,064
Local option sales tax	41,133
Unrestricted interest on investments	12,350
Bond Proceeds	391,688
Other general receipts	7,310

##### Transfers, net

	107,500
Total receipts and transfers	<u>931,914</u>

#### Disbursements:

Public safety	89,222
Public works	64,832
Health and social services	3,486
Culture and recreation	98,007
Community and economic development	43,236
General government	76,310
Debt service	33,409
Capital projects	<u>80,000</u>
Total disbursements	<u>488,502</u>

Increase in cash basis net assets	443,412
-----------------------------------	---------

Cash basis net assets beginning of year	<u>246,654</u>
---	----------------

Cash basis net assets end of year	<u><u>\$ 690,066</u></u>
-----------------------------------	--------------------------



The City's total receipts for governmental activities increased by 49% or \$404,582. The significant increase in receipts was primarily the result of proceeds received from the issuance of a GO Bond for pool renovations.

An actual comparison of net assets in governmental activities is not available due to the changes in accounting procedures for 2004.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The water fund cash balance showed a marginal increase of approximately \$8,400, this was due primarily to increased sale of water.

The wastewater fund cash balance showed a decrease of approximately \$9,000, this was due primarily to the payment of a revenue bond. This fund is being closely monitored by the City.

The electric fund cash balance showed a decrease of approximately \$13,000, this was primarily due to a transfer of funds into the general fund for a capital building purchase.

The garbage fund cash balance showed an increase of approximately \$3,500, this was primarily due to an increase in fees collected.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 10, 2004 and resulted in an increase in operating disbursements due to the purchase and renovation of a building for the fire department.

## **DEBT ADMINISTRATION**

At June 30, 2004, the City had approximately \$876,984 in bonds and other long-term debt, this is a significant increase over last years due to the newly acquired GO Bond for the pool renovation project.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Stratford's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. One of the major factors taken into account was the loss of state aid. A second area of consideration was the decrease in value of agricultural properties which will have a significant impact on the contributions received from townships for fire protection.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$1,147,417, a decrease of 35% over the final 2004 budget. Cuts in state aid, devaluation of agricultural properties are contributing factors in this decrease. Another consideration for the

decrease is the receipt of debt proceeds in 2004 which will be expended in 2005. The City may have to consider additional transfer of funds from its business funds to its general fund to compensate for these decreases. Budget disbursements are expected to rise by approximately \$500,000. Expenditures for the pool renovation project are the main cause of this increase. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$500,000 by the close of 2005.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Corinne Anderson, City Manager, 805 Shakespeare Ave., Stratford, Iowa.

## **Basic Financial Statements**

City of Stratford, Iowa  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2004

		Program Receipts		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 89,222	930	27,143	-
Public works	64,832	581	62,132	-
Health and social services	3,486	-	-	-
Culture and recreation	98,007	15,748	13,044	12,158
Community and economic development	43,236	-	-	-
General government	76,310	23	110	-
Debt service	33,409	-	-	-
Capital projects	80,000	-	-	-
Total governmental activities	<u>488,502</u>	<u>17,282</u>	<u>102,429</u>	<u>12,158</u>
Business type activities:				
Electric	425,997	513,053	-	-
Garbage and landfill	68,852	72,348	-	-
Nonmajor	113,215	118,088	-	-
Total business type activities	<u>608,064</u>	<u>703,489</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,096,566</u>	<u>720,771</u>	<u>102,429</u>	<u>12,158</u>

**General Receipts:**

Property tax levied for:

- General purposes
- Tax increment financing
- Debt service

Local option sales tax

Unrestricted interest on investments

Bond proceeds

Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

- Streets
- Urban renewal purposes
- Debt service
- Other purposes

Unrestricted

**Total cash basis net assets**

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

---

Governmental Activities	Business Type Activities	Total
(61,149)	-	(61,149)
(2,119)	-	(2,119)
(3,486)	-	(3,486)
(57,057)	-	(57,057)
(43,236)	-	(43,236)
(76,177)	-	(76,177)
(33,409)	-	(33,409)
(80,000)	-	(80,000)
<u>(356,633)</u>	<u>-</u>	<u>(356,633)</u>
-	87,056	87,056
-	3,496	3,496
-	4,873	4,873
-	95,425	95,425
<u>(356,633)</u>	<u>95,425</u>	<u>(261,208)</u>
116,094	-	116,094
122,258	-	122,258
1,712	-	1,712
41,133	-	41,133
12,350	-	12,350
391,688	-	391,688
7,310	4,308	11,618
107,500	(107,500)	-
<u>800,045</u>	<u>(103,192)</u>	<u>696,853</u>
443,412	(7,767)	435,645
246,654	756,343	1,002,997
<u>\$ 690,066</u>	<u>748,576</u>	<u>1,438,642</u>
2,970	-	2,970
151,866	-	151,866
(7,688)	30,709	23,021
16,527	-	16,527
526,391	717,867	1,244,258
<u>\$ 690,066</u>	<u>748,576</u>	<u>1,438,642</u>

City of Stratford, Iowa  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2004

	<u>Special Revenue</u>		
	<u>General</u>	<u>TIF</u>	<u>Road Use</u>
Receipts:			
Property tax	\$ 101,303	-	-
Tax increment financing collections	-	122,258	-
Other city tax	805	-	-
Licenses and permits	1,163	-	-
Use of money and property	13,750	-	-
Intergovernmental	39,447	-	62,133
Charges for service	16,378	-	-
Miscellaneous	5,649	-	-
Total receipts	<u>178,495</u>	<u>122,258</u>	<u>62,133</u>
Disbursements:			
Operating:			
Public safety	48,865	-	-
Public works	1,122	-	63,710
Health and social services	3,486	-	-
Culture and recreation	81,382	-	-
Community and economic development	5,600	37,636	-
General government	67,977	-	-
Debt service	-	-	-
Capital projects	80,000	-	-
Total disbursements	<u>288,432</u>	<u>37,636</u>	<u>63,710</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(109,937)</u>	<u>84,622</u>	<u>(1,577)</u>
Other financing sources (uses):			
Bond proceeds	-	-	-
Operating transfers in	101,171	-	-
Operating transfers out	(2,500)	(25,925)	-
Total other financing sources (uses)	<u>98,671</u>	<u>(25,925)</u>	<u>-</u>
Net change in cash balances	(11,266)	58,697	(1,577)
Cash balances beginning of year	128,404	93,169	4,547
Cash balances end of year	<u>\$ 117,138</u>	<u>151,866</u>	<u>2,970</u>
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	117,138	-	-
Special revenue funds	-	151,866	2,970
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 117,138</u>	<u>151,866</u>	<u>2,970</u>
See notes to financial statements.			

Exhibit B

<u>Capital Projects</u>	Other Nonmajor Governmental	
<u>Pool</u>	<u>Funds</u>	<u>Total</u>
<u>Renovation</u>		
-	15,547	116,850
-	-	122,258
-	41,284	42,089
-	-	1,163
-	-	13,750
-	12,899	114,479
-	-	16,378
-	110	5,759
-	69,840	432,726
-	40,357	89,222
-	-	64,832
-	-	3,486
-	16,625	98,007
-	-	43,236
-	8,333	76,310
-	33,409	33,409
-	-	80,000
-	98,724	488,502
-	(28,884)	(55,776)
391,688	-	391,688
-	35,925	137,096
-	(1,171)	(29,596)
391,688	34,754	499,188
391,688	5,870	443,412
66	20,468	246,654
391,754	26,338	690,066
-	(7,688)	(7,688)
-	-	117,138
-	16,527	171,363
391,754	17,499	409,253
391,754	26,338	690,066

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			
	<u>Electric</u>	<u>Garbage and Landfill</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 511,688	72,348	116,163	700,199
Miscellaneous	<u>1,365</u>	<u>-</u>	<u>1,925</u>	<u>3,290</u>
Total operating receipts	<u>513,053</u>	<u>72,348</u>	<u>118,088</u>	<u>703,489</u>
Business type activities	<u>425,997</u>	<u>68,852</u>	<u>86,067</u>	<u>580,916</u>
Total operating disbursements	<u>425,997</u>	<u>68,852</u>	<u>86,067</u>	<u>580,916</u>
Excess of operating receipts over operating disbursements	<u>87,056</u>	<u>3,496</u>	<u>32,021</u>	<u>122,573</u>
Non-operating receipts (disbursements):				
Miscellaneous	4,308	-	-	4,308
Debt service	<u>-</u>	<u>-</u>	<u>(27,148)</u>	<u>(27,148)</u>
Total non-operating receipts (disbursements)	<u>4,308</u>	<u>-</u>	<u>(27,148)</u>	<u>(22,840)</u>
Excess of receipts over disbursements	91,364	3,496	4,873	99,733
Operating transfers out	<u>(105,000)</u>	<u>-</u>	<u>(2,500)</u>	<u>(107,500)</u>
Net change in cash balances	(13,636)	3,496	2,373	(7,767)
Cash balances beginning of year	<u>648,228</u>	<u>(2,030)</u>	<u>110,145</u>	<u>756,343</u>
Cash balances end of year	<u>\$ 634,592</u>	<u>1,466</u>	<u>112,518</u>	<u>748,576</u>
<b>Cash Bases Fund Balances</b>				
Reserved for debt service	\$ -	-	30,709	30,709
Unreserved	<u>634,592</u>	<u>1,466</u>	<u>81,809</u>	<u>717,867</u>
Total cash basis fund balances	<u>\$ 634,592</u>	<u>1,466</u>	<u>112,518</u>	<u>748,576</u>

See notes to financial statements.



City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

The City of Stratford is a political subdivision of the State of Iowa located in Hamilton and Webster counties. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, electric and garbage utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, City of Stratford has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board: Hamilton County Joint E911 Service Board.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental or enterprise funds.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Capital Projects Pool Renovation Fund is utilized to account for swimming pool improvement costs.

The City reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the City's water system.

The Garbage and Landfill Fund accounts for the operation and maintenance of the City's garbage and landfill operations.

C. Measurement Focus and Basis of Accounting

The City of Stratford maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation, general government and debt service functions.

**(2) Cash**

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvements certificates of a drainage district.

There were no investments at June 30, 2004. During the year, the City invested its excess funds in certificates of deposit and money market savings accounts.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 56,007	20,440	19,000	8,316	17,821	12,488
2006	61,346	17,603	20,000	7,438	19,229	11,080
2007	66,705	15,601	21,000	6,514	20,749	9,561
2008	67,415	13,283	22,000	5,544	22,388	7,922
2009	65,000	10,783	23,000	4,527	24,156	6,153
2010-2014	<u>215,000</u>	<u>26,344</u>	<u>75,000</u>	<u>7,022</u>	<u>61,168</u>	<u>6,703</u>
Total	\$ 531,473	104,054	180,000	39,361	165,511	53,907
	=====	=====	=====	=====	=====	=====

Year Ending June 30,	Total	
	Principal	Interest
2005	\$ 92,828	41,244
2006	100,575	36,121
2007	108,454	31,676
2008	111,803	26,749
2009	112,156	21,463
2010-2014	<u>351,168</u>	<u>40,069</u>
Total	\$ 876,984	197,322
	=====	=====

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (A) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made to a sewer revenue sinking fund Account for the purpose of making the bond principal and interest payments when due.
- (C) A Sewer Revenue Bond Reserve Account is to be established and the amount to remain deposited in this account until the series 1991 bonds have been paid in full, shall be equal to the lesser of (1) the maximum amount of principal and interest becoming due on the series 1991 bonds in any succeeding fiscal year or (2) 10 percent of the principal amount of the series 1991 bonds then outstanding.

The City's sewer utility account had a negative unreserved balance at June 30, 2004.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$7,419, \$6,919, and \$6,727, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 6,400 =====

This liability has been computed based on rates of pay in effect at June 30, 2003.

**(6) Risk Management**

The City of Stratford is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Stratford, Iowa  
Notes to Financial Statements

June 30, 2004

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

General	Special Revenue:	
	Local Option Sales Tax	\$ 1,171
	Enterprise:	
	Electric	<u>100,000</u>
		<u>101,171</u>
Capital Projects:		
Capital Improvement	General	2,500
	Enterprise	
	Water	2,500
	Electric	<u>5,000</u>
		<u>10,000</u>
Debt Service	Special Revenue:	
TIF GO Note	TIF	<u>25,925</u>
Total		<u>\$ 137,096</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.



City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

**(8) Deficit Fund Balances**

The Enterprise Fund, Sewer Utility Account had a deficit unreserved balance of \$17,440 at June 30, 2004. The Council is reviewing to see if a rate increase is needed. The Council and manager will contact the City attorney to see if this is a violation of the revenue bond.

The Special Revenue Fund, Project Share Account had a deficit balance of \$1,719 at June 30, 2004. This deficit will be eliminated upon transfer of monies from general fund.

The Debt Service Fund, Fire Truck Replacement Account had a deficit balance of \$7,689 at June 30, 2004. This deficit will be eliminated upon receipt of property taxes.

**(9) Construction Commitment**

The City has committed to a pool renovation project for approximately \$500,000. This will be financed with a \$400,000 from issuance of debt and \$100,000 from the Electric Fund.

**(10) Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2004

**(11) Operating Leases**

The City of Stratford has entered into a lease agreement to lease a copier for 48 months at \$96 per month. This lease expires November 2005 at which time one of four options may be exercised. Lease payments made during June 30, 2004 were \$673. Future minimum payments are as follows:

<u>Year</u>	<u>Amount</u>
6-30-05	\$ 1,153
6-30-06	<u>481</u>
	<u>1,634</u>
	<u>=====</u>

## **Required Supplementary Information**

City of Stratford, Iowa

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 116,850	-
Tax increment financing collections	122,258	-
Other city tax	42,089	-
Licenses and permits	1,163	-
Use of money and property	13,750	-
Intergovernmental	114,479	-
Charges for service	16,378	700,199
Miscellaneous	<u>5,759</u>	<u>7,598</u>
Total receipts	<u>432,726</u>	<u>707,797</u>
Disbursements:		
Public safety	89,222	-
Public works	64,832	-
Health and social services	3,486	-
Culture and recreation	98,007	-
Community and economic development	43,236	-
General government	76,310	-
Debt service	33,409	-
Capital projects	80,000	-
Business type activities	<u>-</u>	<u>608,064</u>
Total disbursements	<u>488,502</u>	<u>608,064</u>
Excess (deficiency) of receipts over (under) disbursements)	(55,776)	99,733
Other financing sources, net	<u>499,188</u>	<u>(107,500)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	443,412	(7,767)
Balances beginning of year	<u>246,654</u>	<u>756,343</u>
Balances end of year	<u>\$ 690,066</u>	<u>748,576</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Original</u>	<u>Final</u>	Final to Net <u>Variance</u>
116,850	116,831	116,831	19
122,258	64,625	125,000	(2,742)
42,089	37,662	46,605	(4,516)
1,163	975	975	188
13,750	20,750	20,750	(7,000)
114,479	121,405	109,405	5,074
716,577	795,618	795,618	(79,041)
13,357	5,060	5,060	8,297
<u>1,140,523</u>	<u>1,162,926</u>	<u>1,220,244</u>	<u>(79,721)</u>
89,222	75,375	104,582	15,360
64,832	95,178	69,553	4,721
3,486	4,005	4,005	519
98,007	91,311	91,311	(6,696)
43,236	47,000	47,000	3,764
76,310	74,541	74,541	(1,769)
33,409	1,700	27,325	(6,084)
80,000	-	80,000	-
608,064	742,000	742,000	133,936
<u>1,096,566</u>	<u>1,131,110</u>	<u>1,240,317</u>	<u>143,751</u>
43,957	31,816	(20,073)	64,030
<u>391,688</u>	<u>-</u>	<u>-</u>	<u>391,688</u>
435,645	31,816	(20,073)	455,718
<u>1,002,997</u>	<u>914,264</u>	<u>914,264</u>	<u>88,733</u>
<u>1,438,642</u>	<u>946,080</u>	<u>894,191</u>	<u>544,451</u>

City of Stratford, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as

functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$109,207. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation, general government and debt service functions.

## **Other Supplementary Information**

City of Stratford, Iowa

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue			
	Local Option <u>Sales Tax</u>	Employee <u>Benefits</u>	Project <u>Share</u>	Library <u>Computer</u>
Receipts:				
Property tax	\$ -	13,847	-	-
Other city tax	41,133	139	-	-
Intergovernmental	-	-	-	12,158
Miscellaneous	-	-	110	-
Total receipts	<u>41,133</u>	<u>13,986</u>	<u>110</u>	<u>12,158</u>
Disbursements:				
Operating:				
Public safety	39,962	395	-	-
Culture and recreation	-	4,467	-	12,158
General government	-	7,868	465	-
Debt service	-	-	-	-
Total disbursements	<u>39,962</u>	<u>12,730</u>	<u>465</u>	<u>12,158</u>
Excess (deficiency) of receipts over (under) disbursements	1,171	1,256	(355)	-
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	<u>(1,171)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,171)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	-	1,256	(355)	-
Cash balances beginning of year	-	16,990	(1,364)	-
Cash balances end of year	<u>\$ -</u>	<u>18,246</u>	<u>(1,719)</u>	<u>-</u>
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
Special revenue funds	-	18,246	(1,719)	-
Capital project fund	-	-	-	-
Total cash basis fund balances	<u>\$ -</u>	<u>18,246</u>	<u>(1,719)</u>	<u>-</u>

See accompanying independent auditor's report.



## Schedule 1

<u>Debt Service</u>		<u>Capital Projects</u>		
<u>Fire Truck Replacement</u>	<u>TIFGO Note</u>	<u>Capital Improvements</u>	<u>Capital Equipment</u>	<u>Total</u>
1,700	-	-	-	15,547
12	-	-	-	41,284
741	-	-	-	12,899
-	-	-	-	110
<u>2,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,840</u>
-	-	-	-	40,357
-	-	-	-	16,625
-	-	-	-	8,333
7,484	25,925	-	-	33,409
<u>7,484</u>	<u>25,925</u>	<u>-</u>	<u>-</u>	<u>98,724</u>
(5,031)	(25,925)	-	-	(28,884)
-	25,925	-	10,000	35,925
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,171)</u>
<u>-</u>	<u>25,925</u>	<u>-</u>	<u>10,000</u>	<u>34,754</u>
(5,031)	-	-	10,000	5,870
(2,657)	-	3,892	3,607	20,468
<u>(7,688)</u>	<u>-</u>	<u>3,892</u>	<u>13,607</u>	<u>26,338</u>
(7,688)	-	-	-	(7,688)
-	-	-	-	16,527
<u>-</u>	<u>-</u>	<u>3,892</u>	<u>13,607</u>	<u>17,499</u>
<u>(7,688)</u>	<u>-</u>	<u>3,892</u>	<u>13,607</u>	<u>26,338</u>

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2004

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 71,726	44,437	116,163
Miscellaneous	<u>1,623</u>	<u>302</u>	<u>1,925</u>
Total operating receipts	<u>73,349</u>	<u>44,739</u>	<u>118,088</u>
Operating disbursements:			
Business type activities	<u>60,113</u>	<u>25,954</u>	<u>86,067</u>
Total operating disbursements	<u>60,113</u>	<u>25,954</u>	<u>86,067</u>
Excess of operating receipts over operating disbursements	<u>13,236</u>	<u>18,785</u>	<u>32,021</u>
Non-operating receipts (disbursements):			
Debt service	<u>-</u>	<u>(27,148)</u>	<u>(27,148)</u>
Total non-operating receipts (disbursements)	<u>-</u>	<u>(27,148)</u>	<u>(27,148)</u>
Excess of receipts over disbursements	13,236	(8,363)	4,873
Operating transfers out	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
Net change in cash balances	10,736	(8,363)	2,373
Cash balances beginning of year	<u>88,513</u>	<u>21,632</u>	<u>110,145</u>
Cash balances end of year	<u>\$ 99,249</u>	<u>13,269</u>	<u>112,518</u>
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	30,709	30,709
Unreserved	<u>99,249</u>	<u>(17,440)</u>	<u>81,809</u>
Total cash basis fund balances	<u>\$ 99,249</u>	<u>13,269</u>	<u>112,518</u>

See accompanying independent auditor's report.

City of Straford, Iowa

Schedule of Indebtedness

Year ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Fire equipment	Aug 15, 1996	5.65 %	\$ 65,000
Water and sewer improvements	Feb 1, 1999	4.00-4.70 %	190,000
Swimming pool	May 1, 2004	1.75-4.20 %	400,000
Total			
Revenue bonds:			
Sewer	Jun 1, 1992	4.62 %	\$ 350,000
Urban renewal tax increment financing (TIF)			
revenue bonds	May 1, 2001	7.75 %	\$ 230,000

See accompanying independent auditor's report.

## Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
32,121	-	5,648	26,473	1,836	-
125,000	-	20,000	105,000	5,625	-
-	400,000	-	400,000	-	-
<u>\$ 157,121</u>	<u>400,000</u>	<u>25,648</u>	<u>531,473</u>	<u>7,461</u>	<u>-</u>
<u>\$ 198,000</u>	<u>-</u>	<u>18,000</u>	<u>180,000</u>	<u>9,148</u>	<u>-</u>
<u>\$ 188,636</u>	<u>-</u>	<u>23,125</u>	<u>165,511</u>	<u>14,512</u>	<u>-</u>

## Bond and Note Maturities

June 30, 2004

Year Ending <u>June 30,</u>	Revenue Bond	
	Sewer	
	Issued June 1, 1992	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2005	4.62 %	\$ 19,000
2006	4.62	20,000
2007	4.62	21,000
2009	4.62	22,000
2009	4.62	23,000
2010-2012	4.62	75,000
Total		<u>\$ 180,000</u>

Year Ending <u>June 30,</u>	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Issued May 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2005	7.75 %	\$ 17,821
2006	7.75	19,229
2007	7.75	20,749
2008	7.75	22,388
2009	7.75	24,156
2010-2012	7.75	61,168
Total		<u>\$ 165,511</u>

(continued)

## Bond and Note Maturities

June 30, 2004

Year Ending <u>June 30,</u>	General Obligation Notes						
	Fire Equipment		Sewer and Water		Swimming Pool		
	Issued Aug 15, 1996		Issued Feb 1, 1999		Issued May 1, 2004		
	Interest		Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Total</u>
2005	5.65 %	\$ 6,007	4.40 %	\$ 20,000	1.75 %	\$ 30,000	56,007
2006	5.65	6,346	4.45	20,000	2.15	35,000	61,346
2007	5.65	6,705	4.50	20,000	2.60	40,000	66,705
2008	5.65	7,415	4.60	20,000	2.95	40,000	67,415
2009		-	4.70	25,000	3.20	40,000	65,000
2010		-		-	3.45	40,000	40,000
2011		-		-	3.70	40,000	40,000
2012		-		-	3.90	45,000	45,000
2013		-		-	4.05	45,000	45,000
2014		-		-	4.20	45,000	45,000
Total		<u>\$ 26,473</u>		<u>\$ 105,000</u>		<u>\$ 400,000</u>	<u>531,473</u>

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 116,850	114,665
Tax increment financing collections	122,258	129,822
Other city tax	42,089	30,236
Licenses and permits	1,163	1,151
Use of money and property	13,750	13,731
Intergovernmental	114,479	89,684
Charges for service	16,378	20,057
Miscellaneous	<u>5,759</u>	<u>19,930</u>
Total	<u>\$ 432,726</u>	<u>419,276</u>
Disbursements:		
Operating:		
Public safety	\$ 89,222	62,788
Public works	64,832	65,255
Health and social services	3,486	1,828
Culture and recreation	98,007	71,714
Community and economic development	43,236	63,213
General government	76,310	70,705
Debt service	33,409	34,259
Capital projects	<u>80,000</u>	<u>-</u>
Total	<u>\$ 488,502</u>	<u>369,762</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Stratford, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 24, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Stratford's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretation of those statutes. Prior year statutory comments have been resolved except for items II-A-04, II-B-04, II-I-04 and II-J-04.



## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Stratford's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial

reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City of Stratford's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Stratford and other parties to whom the City of Stratford may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Stratford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CORNWELL & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

November 24, 2004

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2004

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

I-A-04 Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent loss from employee error or dishonesty and therefore maximizes the accuracy of the City's financial statements. We noted that one employee handles almost all of the financial duties, including reconciling accounts and recording financial data.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. Therefore, we recommend the Council maintain its diligence in the review of the financial records.

Response and Corrective Action Planned - We will continue our review.

Conclusion - Response accepted.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City Council. However, the maximum deposit amount stated in the resolution for one financial institution was exceeded during the year ended June 30, 2004.

Recommendation - The City should amend its depository resolution in sufficient amounts to make sure its deposits are not exceeded, in accordance with Chapter 12C.2 of the Code of Iowa.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2004

Response – This was overlooked this year. We will increase our depository resolution at the next council meeting.

Conclusion – Response accepted.

- II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the Culture and Recreation, General Government and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

- II-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-E-04 Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Chris Bauer, Council Member, Owner of Bauer Tire and Taxidermy	Repairs	\$ 637

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2004

This transaction does not appear to represent a conflict of interest since the total transaction was less than \$2,500 during the fiscal year.

The City of Stratford purchases its commercial insurance from EMC Insurance of which Rick Woodard, council member, is the agent. Total premiums paid for this coverage was \$30,462 for the year ended June 30, 2004. This does not appear to be a conflict of interest as insurance is a service and falls outside the items that are normally bid on.

II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, it was noted that some of the minutes were not signed.

Recommendation - The minutes should be signed as required by chapter 380.7 of the Code of Iowa.

Response - We will do this in the future.

Conclusion - Response accepted.

II-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted, other than noted under Item II-A-04.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2004

II-I-04 Revenue Bonds - The City had a deficit unreserved balance in the Sewer Utility Account at June 30, 2004.

Recommendation - City officials should monitor this account closely to return it to a positive balance. City officials should also consult with the City attorney to see if this deficit balance is a violation of the bond resolution.

Response - We will do this.

Conclusion - Response accepted.

II-J-04 Financial Condition - As noted in notes to financial statements, footnote eight, there were several accounts with deficit balances at June 30, 2004.

Recommendation - City officials should monitor these accounts closely to return them to a positive balance.

Response - We will review these accounts closely during the next budget year.

Conclusion - Response accepted.